National Film Board of Canada

2012-2013

Quarterly Financial Report for the quarter ended September 30, 2012

National Film Board of Canada
Quarterly Financial Report
for the quarter ended September 30, 2012

1. Introduction

The National Film Board of Canada (NFB) was created by an act of Parliament in 1939. A federal cultural agency within the Canadian Heritage portfolio, the NFB exists to produce and distribute original and innovative audiovisual works that add to our understanding of the issues facing Canadians and raise awareness of Canadian values and viewpoints across the country and around the world. The NFB serves Canadians by producing and making accessible, in all regions of the country and on all available platforms, rich and diverse cultural content that reflects Canada's rapidly shifting demographic profile – content that would otherwise not be produced. A brief description of the agency's activities for the current year can be found in *Part II of the Main Estimates*.

This quarterly report has been prepared by management as required by Section 65.1 of the *Financial Administration Act*, and in the form and manner prescribed by Treasury Board. This quarterly report should be read in conjunction with the Main Estimates, as well as with *Canada's Economic Action Plan 2012 (Budget 2012)*.

2. Basis of Presentation

This quarterly report has been prepared by management using expenditure accounting. The accompanying Statement of Authorities includes the agency's spending authorities granted by Parliament and those used by the agency consistent with the Main Estimates and Supplementary Estimates for the 2011-2012 fiscal year. This quarterly report has been prepared using a special-purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before monies can be spent by the Government. Approvals are given in the form of annually approved limits through the Appropriation Act or through legislation in the form of statutory spending authority for specific purposes.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1, preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, 2012 after the tabling of the Main Estimates on February 28, 2012. As a result, the measures announced in Budget 2012 could not be reflected in the 2012-13 Main Estimates

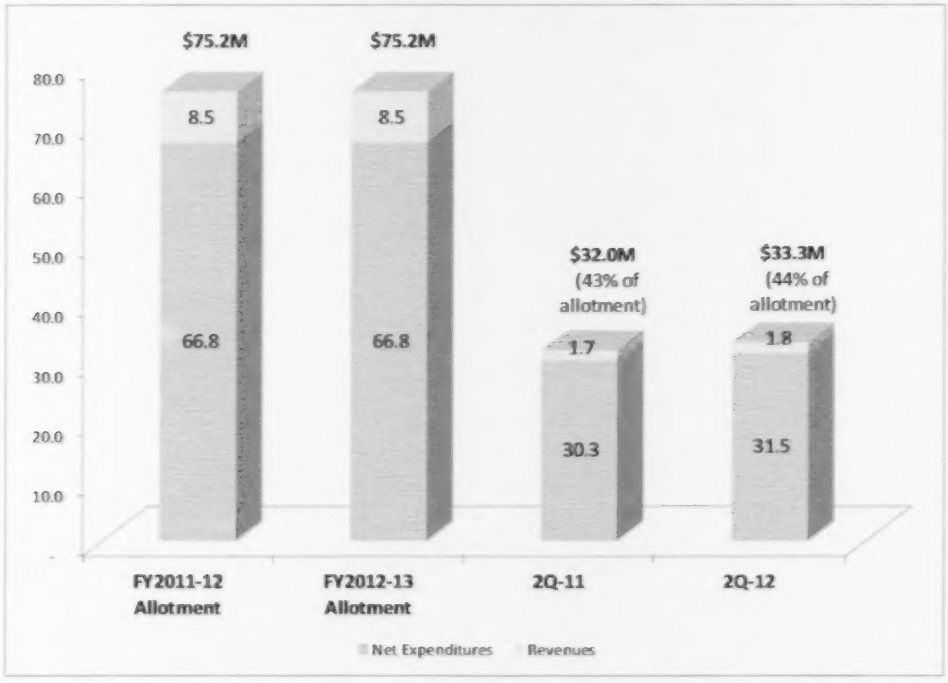
In fiscal year 2012-13, frozen allotments will be established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In future years, the changes to departmental authorities will be implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the subsequent Main Estimates tabled in Parliament.

The NFB uses the full accrual method of accounting to prepare its annual financial statements in accordance with Treasury Board accounting principles, which are consistent with generally accepted Canadian accounting principles for the public sector. However, the spending authorities voted by Parliament remain on an expenditure basis.

This quarterly report has not been subject to an external audit or review.

3. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

This section highlights the principal factors that contributed to the variances in projected and real expenditure, and expected and earned revenues for the quarter ended September 30.



The table below indicates the total budgetary authorities granted to the NFB for fiscal 2012-2013. These have remained stable compared to last year, with projected expenditures standing at $66.8 million. Net expenditures in the second quarter of 2012-2013 totalled $31.5 million, $1.2 million higher than expenditures for the same period last year. The difference can be attributed primarily to the following factors:

Variances in Revenues

As indicated in Table 2, real revenues increased by $287,000, with royalties from the commercialization of *Pink Ribbons, Inc.* and *Surviving Progress* generating significant revenue.

Variances in Expenditures

Total gross expenditures in the first quarter of 2012-2013 rose from $16.4 to $16.8 million, an increase of $351,000 compared to the same period last year.

The disbursement of severance pay to excluded and unrepresented employees after elimination of the program was the primary contributing factor to this one-time expenditure increase. The increase in equipment rentals is associated with a number of productions, including *Il ventait devant ma porte*, *Absences*, *Auto-portrait*, *Verdun* and *La radio d'un peuple*. Expenditures for acquisition of machinery and equipment was slightly lower than in 2011-2012, owing mainly to the termination of lease-purchase contracts for equipment acquired during the digital transition. In the first two quarters of 2011-2012, the NFB incurred significant expenditures to release digital rights in order to achieve a critical mass of films for the CAMPUS educational site launch in January 2012.

The other types of expenditures by standard object are in line with the historic trends.

4. Risks and Uncertainties

New digital technologies are revolutionizing the audiovisual industry in Canada and around the world. That revolution naturally provides varied business opportunities, of which the NFB intends to take full advantage. The NFB has made great strides in this area through its technological plan and innovative digitization plan, which is recognized by the industry as a whole. New digital distribution platforms, such as the NFB.ca Online Screening Room, the development of a transaction platform with downloading and on-demand video capability, the new educational site CAMPUS, and the accessibility of audiovisual products on mobile platforms like tablets and smartphones, are only some of the numerous initiatives the NFB is advancing as it continues its digital transition. These technological advances require significant

financial outlays; in order to meet the challenge, the NFB has been reviewing internal procedures for several years to achieve new efficiencies and reinvest the savings in its strategic priorities.

Below is an overview of the principal risks the NFB will face in 2012-2013.

External Risks

Current economic conditions continue to have impacts on revenue growth, as does Parliament's recent passage of Bill C-11, the Copyright Modernization Act, which, among other things, allows content to be reproduced for educational purposes without payment of royalties. However, for some years now, the NFB has had in place a business plan (2011-2016) to address these impacts and to continue to develop a variety of outlets created largely by the rise in Web-based digital consumption.

Internal Risks

The financial report for the first quarter of 2012-2013 described the progress of the project to ensure the physical safety of the NFB's audiovisual assets with the implementation of a preservation and conservation plan to protect its collection over the long term. The NFB has definitely mitigated this risk. The project is proceeding on schedule, and we expect to complete the relocation in the course of 2014-2015.

The NFB is continuing with its established seven-year digitization and digital archiving plan, which presents numerous technical and financial challenges.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will be implemented in order to refocus government and programs, make it easier for Canadians and business to deal with their government, and modernize and reduce the back office.

The NFB will achieve Budget 2012 savings of $6.7 millions (10% of its budget) by fiscal year 2014-2015 through both reductions and restraint to streamline and focus operations while ensuring continued quality delivery to Canadians on its important mandate.

The NFB's savings target for the first year of implementation is $110,000. Savings will increase to $3.3 million 2013-2014, and ongoing savings will be $6.7 million by 2014-2015.

The principal measures the NFB is implementing are the following:

- On September 1, 2012, closure of individual screening booths and screening rooms at the Toronto Mediatheque and Montreal CineRobotheque. The educational workshops will continue to be offered at the Montreal head office and at the usual premises in Toronto, where a public exhibition space will also be available;
- On April 1, 2012, abolition of the "Festivals and Events" component of the Grants and Contributions Program;
- Slight reduction – 1% of the NFB's total budget – in amounts allocated to the production of audiovisual works;
- Consolidation of administrative services in regional offices;
- Institution of new work procedures in all NFB divisions, particularly in the areas of linguistic services management, rights management and general administration. The NFB will continue to streamline its physical spaces, and expects to save additional amounts.

The NFB has received no additional funds to implement the above measures.

6. Significant Changes in Relation to Operations, Personnel and Programs

No significant changes related to operations, personnel and programs having an impact on financial reporting occurred during the quarter ended September 30, 2012.

Approved by:

Tom Perlmutter
Government Film Commissioner

Montreal, Canada

November 30, 2012

Luisa Frate
Director General, Finance,
Operations and Technology
(Chief Financial Officer)
Montreal, Canada

November 30, 2012

National Film Board of Canada
Quarterly Financial Report
for the quarter ended September 30, 2012

Table 1 : Statement of Authorities *(unaudited)*

	Fiscal Year 2012-2013			Fiscal Year 2011-2012		
	Total available for use for the year ending March 31, 2013*	Used during the quarter ended September 30, 2012	Year to date used at the quarter-end	Total available for use for the year ending March 31, 2012	Used during the quarter ended September 30, 2011	Year to date used at the quarter-end
Vote 70 - Operating expenditures	66,782,204	15,721,648	31,481,678	66,782,204	15,015,297	30,319,211
Total Budgetary authorities	66,782,204	15,721,648	31,481,678	66,782,204	15,015,297	30,319,211
Total authorities	**66,782,204**	**15,721,648**	**31,481,678**	**66,782,204**	**15,015,297**	**30,319,211**

**Includes only Authorities available for use and granted by Parliament at quarter-end)*

National Film Board of Canada
Quarterly Financial Report
for the quarter ended September 30, 2012

Table 2 : Departmental budgetary expenditures by Standard Object *(unaudited)*

	Fiscal Year 2012-2013			Fiscal Year 2011-2012		
	Planned expenditures for the year ending March 31, 2013	Expended during the quarter ended September 30, 2012	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2012	Expended during the quarter ended September 30, 2011	Year to date used at quarter-end
Expenditures:						
Personnel	40,346,526	10,205,242	20,412,196	41,937,630	9,829,042	19,375,081
Transportation and communications	3,447,753	705,935	1,343,640	2,959,182	690,143	1,207,411
Information	588,012	60,356	180,461	663,981	12,934	166,776
Professional and special services	14,666,182	2,830,037	4,635,037	13,773,031	2,822,479	4,370,831
Rentals	8,712,622	2,118,631	4,270,627	8,106,530	1,928,626	4,066,868
Repair and maintenance	1,450,616	127,718	805,946	2,177,901	162,864	759,312
Utilities, materials and supplies	1,212,693	183,577	399,992	1,207,677	192,844	391,912
Acquisition of machinery and equipment	3,663,332	285,042	856,763	3,116,709	451,498	1,054,480
Transfer payments	250,000	99,440	131,940	250,000	40,000	47,000
Other subsidies and payments	896,914	185,519	265,216	1,042,009	320,074	602,384
Total gross budgetary expenditures	**75,234,650**	**16,801,497**	**33,301,818**	**75,234,650**	**16,450,504**	**32,042,055**
Less Revenues netted against expenditures:						
Revenues credited to the vote	8,452,446	1,079,849	1,820,140	8,452,446	793,218	1,722,844
Total Revenues netted against expenditures	**8,452,446**	**1,079,849**	**1,820,140**	**8,452,446**	**793,218**	**1,722,844**
Total net budgetary expenditures	**66,782,204**	**15,721,648**	**31,481,678**	**66,782,204**	**15,657,286**	**30,319,211**